

5. SBIC Licensee Financials

Since the SBIC program's financial health is driven by how actual SBIC licensees are performing, this section pertains to SBIC licensee funds. In this preliminary analysis, it has not been possible, due to insufficient data and reporting, to use "industry standard" performance measurements for a typical venture fund, including Internal Rate of Return (IRR) and Realization Ratios (Distributions to Paid-in-Capital Ratio, Residual Value to Paid-In-Capital Ratio, and Total Value to Paid-In-Capital). The SBIC Program is considering measuring or having SBICs report these measurements to the SBA. This will help the program better understand how SBICs perform against comparable non-SBIC funds.

In any event, while performance compared to the rest of the venture capital industry is important, the SBIC Program's primary interest is in ensuring that SBICs will be able to repay their leverage and prioritized payments. Therefore, the SBIC Program analyzes its funds' ability to repay in part by using a measurement called "Capital Impairment," as calculated in the SBIC regulations (13 CFR 107.1840). To simplify this calculation, Capital Impairment of 100% means that the private investors may lose their entire capital, exposing the Government to loss. This holds true for the principal amounts of debentures and participating securities guaranteed by the Government. In the case of participating securities, there is a further risk of loss related to the advanced prioritized payments. A participating securities licensee is only obligated to reimburse the Government for advanced prioritized payments if it earns a profit.

Because of the cyclical nature of venture capital, the "J-curve" effect, and the fact that many venture investments typically suffer total or partial losses, the Investment Division recognizes that Capital Impairment alone provides an incomplete picture of a fund's ability to repay SBA leverage and prioritized payments. As such, the Investment Division recently created a Risk Management Branch under the Office of Operations to revisit SBA Valuation Guidelines and develop a new risk model.

5.1 Consolidated Licensee Financials

By looking at the combined financials of SBIC Licensees, it is possible to develop an understanding of:

- Profits and losses of SBIC Licensees;
- Assets underlying the SBIC Program;
- How the program has grown or contracted; and
- Percentage of SBA leverage to Private Capital and overall Capital base.

The combined financials for active SBICs by fiscal year since FY 1994 appear on the following pages. Because bank-owned SBICs, which typically do not make use of SBA leverage, comprise such a large share of the aggregate private capital and look much different than other SBICs in terms of profits, losses, assets, liabilities, and capital, they have been separated into their own category. (Note: SBICs in liquidations are included in financials up through the FY in which they are transferred.)

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Exhibit 26 – Consolidated SBIC Licensee Financials by Fiscal Year³²

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Number of Active SBICs	237	254	261	264	280	292	321	367	383
Bank	59	58	58	63	68	69	75	77	79
Debenture	102	106	104	96	96	98	103	110	115
Specialized	76	69	68	67	63	60	50	46	33
Participating	0	21	31	38	53	65	93	134	156

Income Statement

INCOME STATEMENT (In Millions of \$)	1994	1995	1996	1997	1998	1999	2000	2001	2002	Total
INVESTMENT INCOME										
Interest & Dividends	185.6	198.7	257.1	215.0	310.0	298.4	337.3	341.4	369.5	2,513.1
Income (Loss) from Investments in Partnerships/ Flow-through Entities or Section 301D Licensees	0.4	9.6	8.3	52.9	68.8	35.1	7.6	4.6	6.6	193.9
Fees	7.8	9.4	16.5	13.9	19.3	21.0	24.9	22.5	21.4	156.7
Other Income	53.8	63.9	79.9	75.4	123.9	97.1	113.3	239.4	190.9	1,037.6
GROSS INVESTMENT INCOME	247.6	281.7	361.8	357.3	522.0	451.5	483.1	607.8	588.4	3,901.3
EXPENSES										
Interest Expense	62.8	66.5	71.8	74.1	93.6	114.4	126.3	219.4	278.5	1,107.4
Officers & Employee Compensation and Benefits	26.6	32.8	40.5	44.0	55.8	82.0	100.8	56.3	31.5	470.2
Investment Advisory and Management Services	43.9	48.9	54.9	69.0	109.4	129.2	199.3	323.5	311.9	1,290.1
Other Expenses	86.7	80.1	53.3	51.0	87.9	87.6	61.9	198.9	137.3	844.7
TOTAL EXPENSES	220.1	228.2	220.5	238.0	346.7	413.2	488.3	798.1	759.2	3,712.3
NET INVESTMENT INCOME (LOSS) BEFORE TAXES	27.6	46.8	132.0	119.2	175.4	38.3	(5.2)	(190.3)	(170.9)	173.1
NET REALIZED GAIN (LOSS) ON INVESTMENTS BEFORE INCOME TAXES (1)	456.8	371.6	734.7	936.1	1,235.1	920.2	3,779.1	6,076.8	1,026.2	15,536.7
NET INCOME (LOSS) BEFORE TAXES & NONRECURRING	363.2	327.1	705.6	566.2	873.5	446.5	1,458.0	1,977.9	749.4	7,467.4
Income Tax Expense	139.4	76.3	239.3	196.9	293.5	151.7	476.7	578.1	258.3	2,410.3
NET INCOME (LOSS) BEFORE NONRECURRING ITEMS	507.1	346.2	640.8	877.1	1,109.8	826.5	3,319.8	5,341.9	601.1	13,570.3
Nonrecurring Items	18.3	25.5	13.9	31.1	(16.4)	10.2	28.2	(25.7)	(0.9)	84.1
NET INCOME (LOSS)	487.3	318.5	628.1	850.2	1,113.4	793.9	3,287.0	5,316.4	600.2	13,395.1

Consolidated SBIC Licensee Balance Sheet

Consolidated Balance Sheet (Millions of \$)	1994	1995	1996	1997	1998	1999	2000	2001	2002
ASSETS									
Total Current Assets	1,710.9	1,722.0	2,147.0	1,871.3	2,590.0	1,899.8	3,129.5	3,898.1	6,332.2
Loans and Investments									
Portfolio Securities									
Loans Net Value	769.3	767.6	766.5	635.2	614.2	762.1	778.3	863.9	744.5
Debt Securities Net Value	547.7	730.7	925.7	1,092.7	1,453.2	1,486.8	1,943.4	1,956.5	2,201.1
Equity Securities Net Value	3,120.9	3,340.4	4,159.1	4,172.2	7,075.8	7,110.9	19,487.0	14,824.7	11,550.2
Total Portfolio Value	4,437.8	4,838.7	5,851.3	5,900.2	9,143.2	9,358.3	22,199.0	17,645.1	14,495.8
Total Assets Acquired Value	30.6	32.0	33.1	25.0	24.7	24.0	19.0	11.5	10.3
Total Loans & Investments at Cost	3,523.5	4,178.1	4,778.4	5,294.4	7,325.1	8,644.4	13,554.8	13,395.8	14,169.8
Total Loans & Investments at Value	4,653.4	5,116.7	6,136.6	6,040.6	9,319.6	9,819.3	22,805.7	17,879.2	14,874.8
Loans & Investments Net Current Maturities	4,498.5	4,987.1	5,980.6	5,900.2	9,206.2	9,700.4	22,677.9	17,717.9	14,736.5
Other Investment Asset	5.7	1.9	2.0	2.1	2.4	2.5	-	-	-
Total Other Assets	39.4	115.3	109.9	142.9	159.5	179.5	181.5	240.3	427.9
TOTAL ASSETS	6,263.4	6,826.3	8,239.6	7,916.5	11,949.4	11,784.4	25,996.3	21,856.3	21,496.6
LIABILITIES AND CAPITAL									
Liabilities									
Current Liabilities	682.1	499.6	644.0	858.3	1,023.0	1,351.1	2,109.1	2,922.3	3,292.6
Other Liabilities	386.8	450.6	496.0	155.1	655.2	167.5	1,108.1	1,067.6	626.1
Long-Term Debt									
SBA Notes and Debentures Payables	533.4	574.7	637.6	683.7	760.9	808.0	818.0	933.3	1,231.6
Other Notes and Debentures Payable	124.8	126.7	173.9	194.4	242.6	363.0	436.4	660.7	1,725.0
Total Long-Term Debt	658.2	701.4	811.4	878.2	1,003.5	1,170.9	1,254.4	1,594.0	2,956.7
Total Liabilities	1,747.7	1,651.6	1,951.4	1,891.6	2,681.6	2,689.5	4,471.7	5,583.9	6,875.3
Total SBA Redeemable Securities	0.5	52.9	314.7	600.6	794.7	943.2	1,545.2	2,114.6	2,697.7
Total Private Contributed Capital	2,798.6	3,452.0	3,830.5	3,810.8	5,129.0	5,973.1	9,208.9	7,326.6	9,037.3
3% SBA Preferred Stock Purchased by SBA	137.6	94.6	58.6	46.0	34.3	28.5	24.2	19.6	10.8
Other Capital Adjustments	-	-	-	-	-	(0.3)	(7.9)	(17.8)	(19.1)
Unrealized Gain (Loss) on Securities held	761.3	716.6	942.1	595.5	1,299.4	947.1	8,095.7	3,425.5	311.2
Undistributed Realized Earnings	816.1	831.4	1,092.0	913.6	1,913.8	1,069.1	2,607.6	3,350.5	2,539.6
TOTAL LIABILITIES AND CAPITAL	6,263.4	6,826.3	8,239.6	7,917.2	11,958.4	11,784.3	25,996.3	21,856.3	21,496.6

Note: "Total Loans and Investment Values" include any unrealized gains and losses as well as any depreciation. By comparing the "Total Loans and Investments at Cost" versus "Total Loans and Investments at Value" one can identify the net changes. Exhibit 32 later in this document under the analysis section provides this analysis.

³² The data reflects the annual 468s received in each FY for SBICs still active by the end of each FY. It does not include any SBICs that were transferred to Liquidations or surrendered licenses prior to the end of the FY.

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Exhibit 27 – Consolidated Debenture and SSBIC Financials by Fiscal Year³³

Income Statement

	1994	1995	1996	1997	1998	1999	2000	2001	2002	Total
Number of Active SBICs	178	174	172	163	158	158	153	155	148	
(In Millions of \$)										
INVESTMENT INCOME										
Interest & Dividends	92.9	103.0	117.2	109.1	123.9	156.8	151.6	163.1	186.5	1,203.8
Income (Loss) from Investments in Partnerships/ Flow-through Entities or Section 301D Licensees	0.6	1.0	1.4	0.4	1.6	1.2	1.6	2.4	3.5	13.7
Fees	3.2	4.3	8.0	4.8	6.9	10.2	9.0	8.6	7.4	62.4
Other Income	13.5	13.8	17.7	19.1	23.4	21.8	20.4	20.4	14.3	164.4
GROSS INVESTMENT INCOME	110.1	122.0	144.3	133.4	155.8	190.0	182.6	194.4	211.7	1,444.3
EXPENSES										
Interest Expense	50.3	54.7	58.2	54.0	61.4	74.4	74.1	88.9	99.1	615.0
Officers & Employee Compensation and Benefits	13.4	12.1	13.8	13.2	15.2	18.0	15.7	14.1	11.7	127.3
Investment Advisory and Management Services	12.0	15.0	19.9	20.8	23.2	28.1	37.1	47.8	55.7	259.7
Other Expenses	25.4	20.4	23.1	23.0	25.5	29.8	31.6	36.7	43.8	259.2
TOTAL EXPENSES	101.1	102.1	115.0	110.9	125.3	150.3	158.6	187.5	210.3	1,261.2
NET INVESTMENT INCOME (LOSS) BEFORE TAXES	9.0	19.9	29.4	22.5	30.5	39.7	23.9	6.9	1.4	183.1
NET REALIZED GAIN (LOSS) ON INVESTMENTS BEFORE INCOME TAXES (1)	8.0	8.8	50.4	49.5	120.2	33.5	161.1	72.9	(75.7)	428.6
NET INCOME (LOSS) BEFORE TAXES & NONRECURRING	18.8	28.6	58.6	46.3	116.2	55.1	121.5	60.3	5.2	510.5
Income Tax Expense	5.7	1.7	8.3	4.4	24.8	5.2	11.1	12.7	3.9	77.9
NET INCOME (LOSS) BEFORE NONRECURRING ITEMS	13.0	26.9	71.4	67.5	125.8	68.0	173.9	67.2	(78.2)	536.6
Nonrecurring Items	0.8	(0.5)	0.8	1.6	(8.4)	(16.8)	(1.4)	(8.2)	(1.0)	(33.2)
NET INCOME (LOSS)	13.0	26.3	71.3	69.3	121.0	51.1	172.5	59.0	(79.3)	504.2

Balance Sheet

Debentures, SSBICs (In Millions of \$)	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total Active Funds Reported at end of FY	178	175	172	163	159	158	153	156	148
ASSETS									
Total Current Assets	506.4	448.1	499.0	561.7	530.1	516.9	543.2	498.6	474.8
Total Loans and Investment at Cost	1,130.6	1,247.8	1,411.2	1,414.1	1,615.9	1,878.0	2,057.8	2,250.5	2,394.6
Total Loans and Investment Value	1,289.4	1,430.2	1,604.1	1,611.9	1,862.2	2,078.1	2,520.6	2,616.6	2,540.0
Loans and Investments Net of Current Maturities	1,159.7	1,317.8	1,499.2	1,511.7	1,786.4	1,976.0	2,411.8	2,501.7	2,422.0
Other Investment Asset	5.7	1.9	2.0	2.1	2.4	2.5	-	-	-
Total Other Assets	14.2	15.5	20.8	20.3	27.8	27.6	36.3	40.7	43.3
TOTAL ASSETS	1,694.8	1,783.3	2,021.0	2,095.8	2,346.9	2,523.1	2,991.3	3,041.0	2,940.1
LIABILITIES AND CAPITAL									
Liabilities									
Current Liabilities	235.2	166.6	166.7	244.9	191.7	253.9	339.5	257.7	120.6
Other Liabilities	67.7	51.4	62.5	46.3	69.7	48.5	73.8	57.3	36.6
Long-Term Debt									
SBA Notes and Debentures Payables	495.2	553.2	619.6	660.2	737.4	785.2	792.4	892.8	1,166.1
Other Notes and Debentures Payable	98.0	82.9	105.6	38.7	74.8	107.4	166.2	248.9	197.4
Total Long-Term Debt	593.2	636.1	725.2	698.9	812.2	892.6	958.5	1,141.7	1,363.5
Total Liabilities	884.8	854.1	954.3	990.1	1,073.6	1,195.0	1,371.8	1,456.7	1,520.6
Redeemable Securities									
4% Redeemable Preferred Securities									
Outstanding	0.5	42.6	54.9	54.5	53.5	51.1	46.4	40.6	39.6
Cumulative Unpaid 4% Distribution	-	3.1	4.6	8.0	9.3	8.3	7.7	7.1	7.7
Total 4% Redeemable Preferred	0.5	45.8	59.5	62.4	62.8	59.4	54.1	47.7	47.4
Total SBA Redeemable Securities	0.5	45.8	59.5	62.4	62.8	59.4	54.1	47.7	47.4
Total Private Contributed Capital	559.5	625.0	737.4	779.4	890.1	1,016.3	1,056.3	1,160.5	1,345.8
3% SBA Preferred Stock Purchased by SBA	137.6	94.6	58.6	46.0	34.3	28.5	24.2	19.6	10.8
Other Capital Adjustments	-	-	-	-	-	(0.3)	(2.3)	(1.9)	(2.6)
Unrealized Gain (Loss) on Securities held	119.5	135.0	140.8	137.3	171.3	162.4	391.5	301.0	97.8
Undistributed Realized Earnings	(8.7)	1.7	20.0	22.2	56.6	1.0	44.6	4.1	(123.5)
TOTAL LIABILITIES AND CAPITAL	1,694.8	1,783.3	2,021.0	2,095.5	2,346.9	2,523.0	2,991.3	3,041.0	2,940.1

³³ The data reflects the annual 468s received in each FY for SBICs still active by the end of each FY. It does not include any SBICs that were transferred to Liquidations or surrendered licenses prior to the end of the FY.

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Exhibit 28 – Consolidated Bank-Owned SBIC Financials by Fiscal Year³⁴

Income Statement

	1994	1995	1996	1997	1998	1999	2000	2001	2002	Total
Number of Active SBICs	59	58	58	63	68	69	75	77	78	
(In Millions of \$)										
INVESTMENT INCOME										
Interest & Dividends	92.8	97.0	140.0	95.7	169.8	125.3	143.1	144.7	146.9	1,155.3
Income (Loss) from Investments in Partnerships/ Flow-through Entities or Section 301D Licensees	(0.2)	8.5	6.5	52.6	69.2	31.2	2.6	0.6	1.3	172.4
Fees	4.7	4.7	3.9	7.6	11.2	9.8	14.4	11.5	10.3	78.0
Other Income	40.3	49.0	64.2	46.1	87.7	65.1	84.1	204.2	165.1	805.7
GROSS INVESTMENT INCOME	137.5	159.2	214.7	201.9	337.9	231.5	244.1	361.0	323.6	2,211.5
EXPENSES										
Interest Expense	12.5	11.8	13.3	19.4	31.4	37.7	50.2	127.0	173.2	476.5
Officers & Employee Compensation and Benefits	13.2	15.2	12.7	30.8	40.6	64.0	85.0	42.1	19.7	323.4
Investment Advisory and Management Services	31.9	33.2	33.7	25.4	53.2	51.4	77.5	125.2	57.1	488.6
Other Expenses	61.3	65.1	43.4	22.0	53.6	43.9	11.0	131.5	55.7	487.4
TOTAL EXPENSES	118.9	125.3	103.1	97.5	178.7	196.9	223.8	425.8	305.6	1,775.9
NET INVESTMENT INCOME (LOSS) BEFORE TAXES	18.6	33.9	111.6	104.4	159.2	34.5	20.4	(64.8)	18.0	435.6
NET REALIZED GAIN (LOSS) ON INVESTMENTS										
BEFORE INCOME TAXES (1)	448.9	362.9	684.4	860.7	1,071.2	719.4	2,711.6	4,131.6	1,145.1	12,135.8
NET INCOME (LOSS) BEFORE TAXES & NONRECURRING	344.4	299.0	647.0	520.0	757.3	391.5	1,336.5	1,917.6	744.2	6,957.5
Income Tax Expense	133.7	80.9	230.9	192.5	268.7	146.5	465.6	565.4	254.4	2,338.6
NET INCOME (LOSS) BEFORE NONRECURRING ITEMS	494.1	319.8	570.1	791.3	954.6	627.2	2,288.9	3,534.8	912.8	10,493.7
Nonrecurring Items	17.5	26.0	13.2	29.1	(8.2)	27.3	30.4	(16.9)	-	118.4
NET INCOME (LOSS)	474.4	292.8	557.6	762.3	962.8	611.6	2,258.4	3,518.2	912.8	10,350.8

Balance Sheet

Banks (In Millions of \$)	1994	1995	1996	1997	1998	1999	2000	2001	2002
Active Funds Reported at end of FY	59	58	58	63	68	69	75	77	79
ASSETS									
Total Current Assets	1,204.5	1,231.8	1,461.7	1,039.9	1,755.3	1,149.5	2,200.0	2,982.9	5,461.6
Loans and Investments									
Portfolio Securities									
Loans Net Value	175.8	184.5	156.5	135.3	143.8	89.9	74.1	116.9	77.0
Debt Securities Net Value	358.0	421.4	432.4	476.8	655.8	656.4	962.8	914.3	862.6
Equity Securities	2,708.4	2,812.7	3,429.2	3,048.0	5,505.8	5,098.0	13,909.0	9,485.9	7,177.4
Total Portfolio Value	3,242.3	3,418.6	4,018.2	3,660.1	6,305.4	5,842.8	14,936.2	10,517.2	8,117.0
Total Assets Acquired Value	1.9	3.4	1.0	0.2	2.2	0.0	0.0	0.0	0.9
Total Loans and Investment at Cost	2,392.8	2,861.6	3,122.4	3,291.1	4,811.7	5,495.9	9,279.6	7,735.1	7,884.7
Total Loans and Investment Value	3,364.0	3,609.3	4,251.7	3,758.3	6,431.9	6,238.7	15,475.9	10,700.7	8,442.0
Loans and Investments Net of Current Maturities	3,338.8	3,592.3	4,200.8	3,718.3	6,395.1	6,225.2	15,462.7	10,659.7	8,426.9
Total Other Assets	25.2	96.1	79.5	106.4	112.1	128.1	111.6	137.3	311.7
TOTAL ASSETS	4,568.6	4,920.3	5,742.0	4,864.6	8,253.7	7,504.9	17,781.7	13,779.9	14,200.2
LIABILITIES AND CAPITAL									
Liabilities									
Current Liabilities	446.9	327.1	475.1	611.7	826.8	1,071.8	1,747.8	2,615.1	3,109.7
Other Liabilities	319.1	399.2	432.5	108.1	585.4	118.9	1,029.6	989.8	566.2
Long-Term Debt									
SBA Notes and Debentures Payables	38.2	12.5	9.0	12.5	12.5	15.5	15.5	18.7	31.7
Other Notes and Debentures Payable	26.8	39.1	68.2	155.7	167.8	255.6	270.2	411.8	1,527.6
Total Long-Term Debt	65.0	51.6	77.2	168.2	180.3	271.1	285.7	430.5	1,559.3
Total Liabilities	862.8	777.8	984.9	888.0	1,592.5	1,461.7	3,063.1	4,035.5	5,235.2
Total 4% Redeemable Preferred	-	1.1	1.2	1.2	1.2	1.3	1.3	1.4	1.4
Total Private Contributed Capital	2,239.2	2,728.2	2,894.9	2,688.1	3,735.2	4,285.2	7,041.0	4,372.2	5,599.4
3% SBA Preferred Stock Purchased by SBA	-	-	-	-	-	-	-	-	-
Other Capital Adjustments	-	-	-	-	-	-	-	-	0.2
Unrealized Gain (Loss) on Securities held	641.8	573.0	766.1	377.0	997.7	552.9	5,112.4	1,972.2	210.1
Undistributed Realized Earnings	824.8	840.1	1,094.9	910.3	1,886.9	1,127.5	2,564.0	3,398.7	3,153.9
Total Liabilities, Redeemable Securities and Partners' Capital	4,568.6	4,920.3	5,742.0	4,864.6	8,262.7	7,504.9	17,781.7	13,779.9	14,200.2

³⁴ The data reflects the annual 468s received in each FY for SBICs still active by the end of each FY. It does not include any SBICs that were transferred to Liquidations or surrendered licenses prior to the end of the FY.

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Exhibit 29 – Consolidated Participating Security Financials by Fiscal Year³⁵

Income Statement

	1994	1995	1996	1997	1998	1999	2000	2001	2002	Total
Number of Active SBICs	0	21	31	38	53	65	93	134	156	
(In Millions of \$)										
INVESTMENT INCOME										
Interest & Dividends	-	(1.3)	(0.1)	10.2	16.3	16.3	42.6	33.6	36.1	153.9
Income (Loss) from Investments in Partnerships/ Flow-through Entities or Section 301D Licensees	-	0.1	0.3	(0.0)	(2.1)	2.7	3.5	1.6	1.8	7.8
Fees	-	0.5	4.5	1.5	1.2	1.0	1.5	2.4	3.7	16.3
Other Income	-	1.2	(2.0)	10.3	12.9	10.1	8.9	14.8	11.5	67.5
GROSS INVESTMENT INCOME	-	0.5	2.8	22.0	28.3	30.1	56.5	52.4	53.1	245.5
EXPENSES										
Interest Expense	-	0.0	0.3	0.8	0.9	2.3	2.0	3.4	6.3	15.9
Officers & Employee Compensation and Benefits	-	5.5	13.9	-	-	-	-	0.1	-	19.5
Investment Advisory and Management Services	-	0.7	1.4	22.8	33.0	49.8	84.6	150.4	199.1	541.8
Other Expenses	-	(5.4)	(13.2)	6.1	8.7	13.9	19.3	30.8	37.9	98.1
TOTAL EXPENSES	-	0.8	2.4	29.6	42.6	66.0	105.9	184.8	243.3	675.3
NET INVESTMENT INCOME (LOSS) BEFORE TAXES	-	(6.9)	(8.9)	(7.6)	(14.3)	(35.9)	(49.5)	(132.4)	(190.2)	(429.8)
NET REALIZED GAIN (LOSS) ON INVESTMENTS BEFORE INCOME TAXES (1)	-	-	-	25.9	43.7	167.3	906.4	1,872.3	(43.2)	2,972.3
NET INCOME (LOSS) BEFORE TAXES & NONRECURRING	-	(0.6)	-	-	-	-	-	-	-	(0.6)
Income Tax Expense	-	(6.3)	-	-	-	-	-	-	-	(6.3)
NET INCOME (LOSS) BEFORE NONRECURRING ITEMS	-	(0.6)	(0.8)	18.3	29.4	131.4	856.9	1,739.9	(233.4)	2,541.1
Nonrecurring Items	-	0.0	0.0	0.3	0.2	(0.2)	(0.8)	(0.6)	0.1	(1.1)
NET INCOME (LOSS)	-	(0.6)	(0.8)	18.6	29.6	131.2	856.1	1,739.3	(233.4)	2,540.0

Balance Sheet

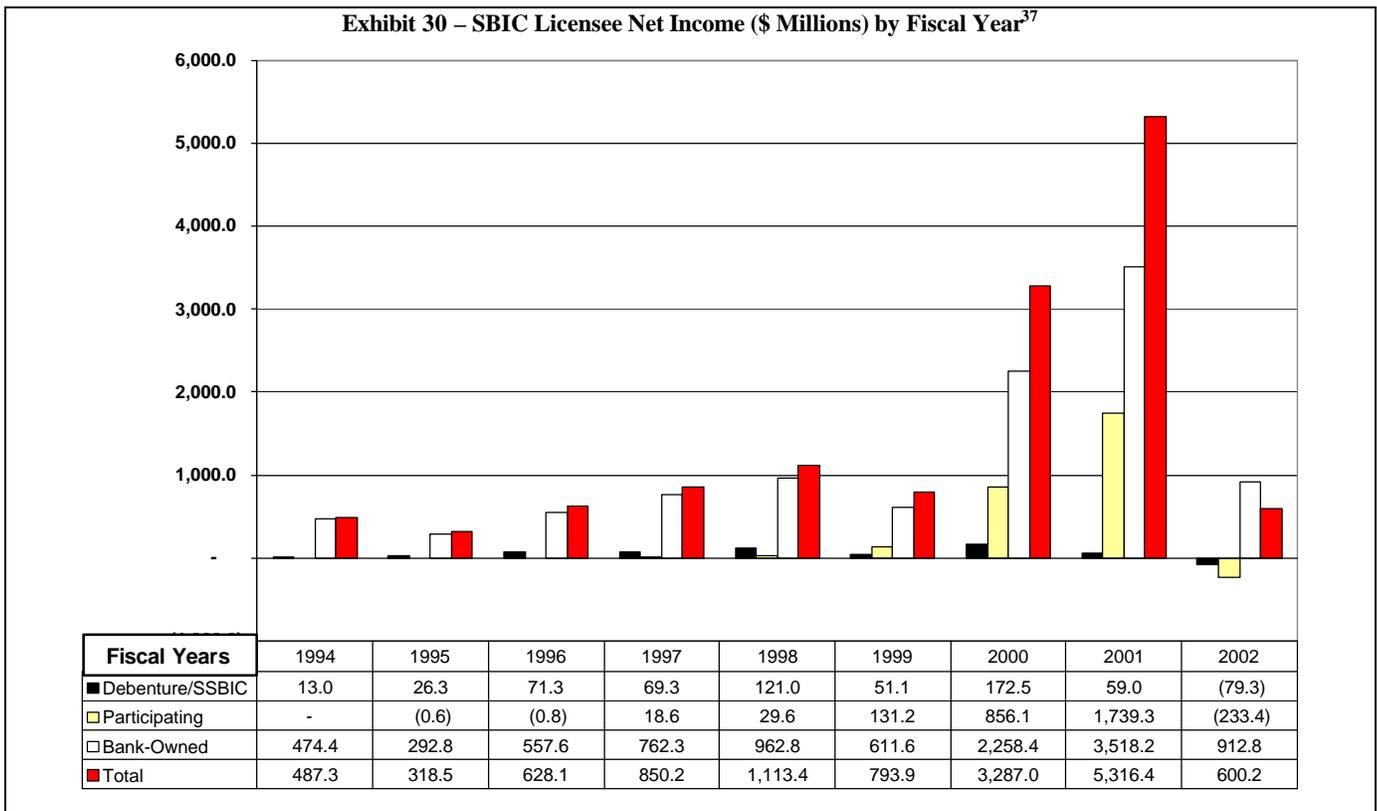
Participating Securities (In Millions of \$)	1994	1995	1996	1997	1998	1999	2000	2001	2002	
Active Funds Reported at end of FY	-	21.0	31.0	38.0	53.0	65.0	93.0	134.0	156.0	
ASSETS										
Total Current Assets	-	42.1	186.3	269.7	304.6	233.5	386.3	416.6	395.8	
Loans and Investments	-	-	-	-	-	-	-	-	-	
Portfolio Securities	-	-	-	-	-	-	-	-	-	
Loans Net Value	-	2.2	11.0	24.2	23.3	35.2	48.4	50.7	55.0	
Debt Securities Net Value	-	6.4	47.6	103.6	147.7	153.9	253.9	308.5	348.2	
Equity Securities Net Value	-	68.6	222.3	541.1	853.3	1,306.7	4,482.9	4,197.0	3,468.8	
Total Portfolio Value	-	77.2	280.9	668.8	1,024.2	1,495.7	4,785.2	4,556.2	3,871.9	
Total Assets Acquired Value	-	-	-	1.5	1.1	6.2	7.2	0.6	1.0	
Total Loans and Investment at Cost	-	68.6	244.7	589.2	897.5	1,270.4	2,217.4	3,410.2	3,890.6	
Total Loans and Investment Value	-	77.2	280.9	670.5	1,025.6	1,502.5	4,809.2	4,562.0	3,892.8	
Loans and Investments Net of Current Maturities	-	76.9	280.7	670.2	1,024.7	1,499.2	4,803.4	4,556.5	3,887.7	
Total Other Assets	-	3.7	9.6	16.2	19.6	23.7	33.6	62.3	72.8	
TOTAL ASSETS	-	122.7	476.6	956.1	1,348.8	1,756.4	5,223.3	5,035.3	4,356.3	
LIABILITIES AND CAPITAL										
Liabilities	-	-	-	-	-	-	-	-	-	
Current Liabilities	-	6.0	2.2	1.7	4.5	25.4	21.9	49.5	62.3	
Other Liabilities	-	0.0	1.0	0.8	0.1	0.1	4.8	20.4	23.3	
Long-Term Debt	-	-	-	-	-	-	-	-	-	
SBA Notes and Debentures Payables	-	9.0	9.0	11.0	11.0	7.3	10.2	21.8	33.9	
Other Notes and Debentures Payable	-	4.7	-	-	-	0.0	-	-	-	
Total Long-Term Debt	-	13.7	9.0	11.0	11.0	7.3	10.2	21.8	33.9	
Total Liabilities	-	19.7	12.2	13.4	15.6	32.8	36.8	91.7	119.5	
Total SBA Participating Securities	-	6.0	254.1	537.0	730.7	882.5	1,489.8	2,065.5	2,648.9	
Total Private Contributed Capital	-	98.9	198.1	343.3	503.7	671.7	1,111.5	1,793.9	2,092.2	
3% SBA Preferred Stock Purchased by SBA	-	-	-	-	-	-	-	-	-	
Other Capital Adjustments	-	-	-	-	-	(0.0)	(5.6)	(15.9)	(16.7)	
Unrealized Gain (Loss) on Securities held	-	8.5	35.2	81.2	130.4	231.8	2,591.8	1,152.3	3.2	
Undistributed Realized Earnings	-	(10.4)	(22.9)	(18.9)	(29.6)	(59.4)	(1.0)	(52.3)	(490.8)	
TOTAL LIABILITIES AND CAPITAL	-	122.7	476.6	956.1	1,348.8	1,756.4	5,223.3	5,035.3	4,356.3	

³⁵ The data reflects the annual 468s received in each FY for SBICs still active by the end of each FY. It does not include any SBICs that were transferred to Liquidations or surrendered licenses prior to the end of the FY.

5.2 Analysis of SBIC Licensee Financials

Net Income

Venture capital fund performance is driven by the market, as the trends indicate on the chart below. Exhibit 30 charts SBIC Licensees' net income by type of fund. To provide further insight, the chart separates debenture and bank-owned SBICs.³⁶



A few highlights are noted below:

- Combined net income totaled \$13.4 billion from FY 1994 through 2002.
- Bank-owned licensees provide the largest contribution to net income during FY 1994 through 2002, earning \$10.4 billion in net income.
- Participating securities licensees provided the next largest contribution, with \$2.5 billion during this timeframe. Debenture licensees provided \$0.5 billion.
- All fund types suffered decreases in FY 2002, with only bank-owned SBICs contributing positive net income, resulting in a combined licensee net income of \$600 million.

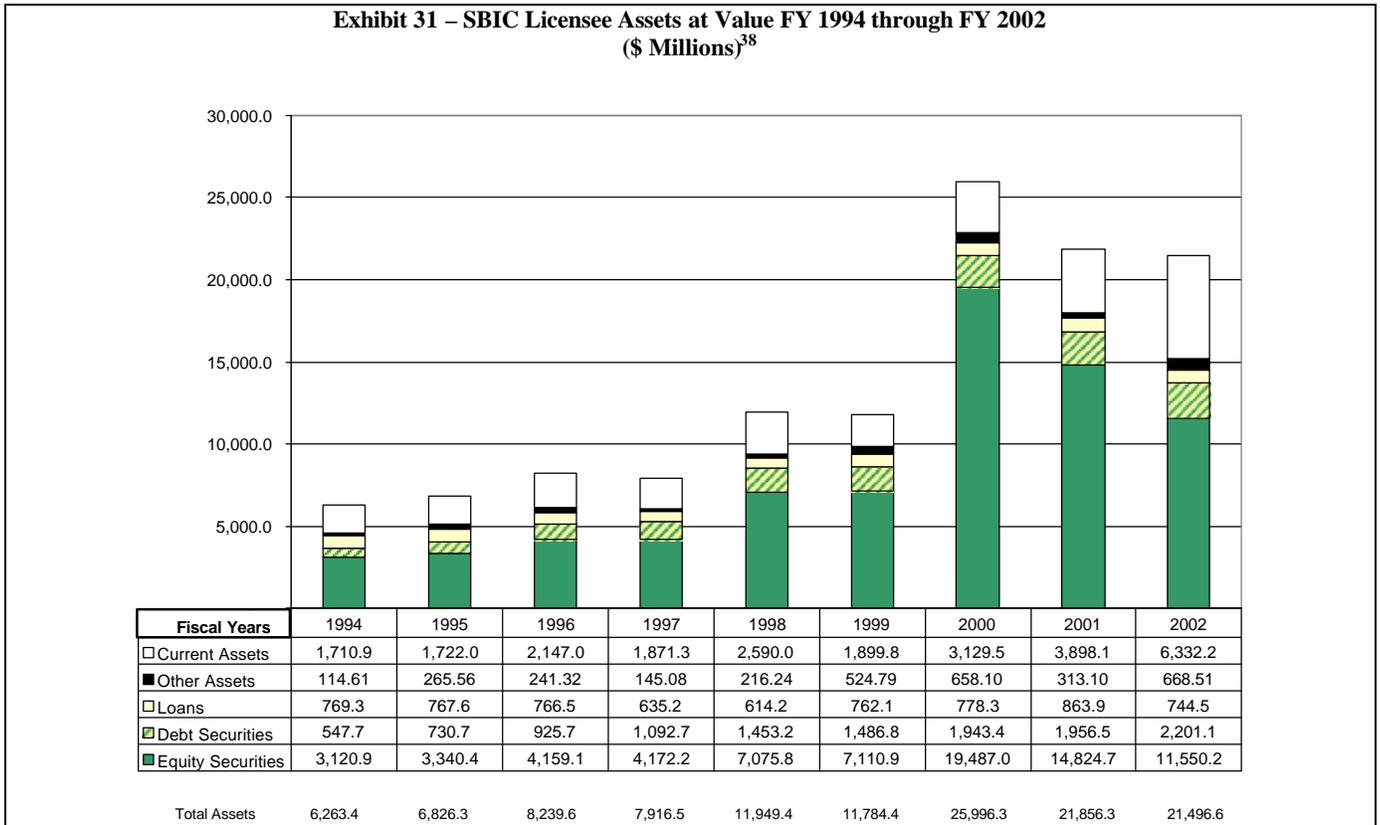
³⁶ SSBICs, while a part of the consolidated debenture financials, are no longer being licensed and are small enough that they do not show up on graphs in comparison to the rest of the program. Therefore they have been included within the debentures in this analysis.

³⁷ The data reflects the annual 468s received in each FY for SBICs still active by the end of each FY. It does not include any SBICs that were transferred to Liquidations or surrendered licenses prior to the end of the FY. It should be noted that net incomes do not include unrealized appreciation or depreciation.

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Assets

A breakdown of the combined assets for SBIC Licensees is shown in the exhibit below.



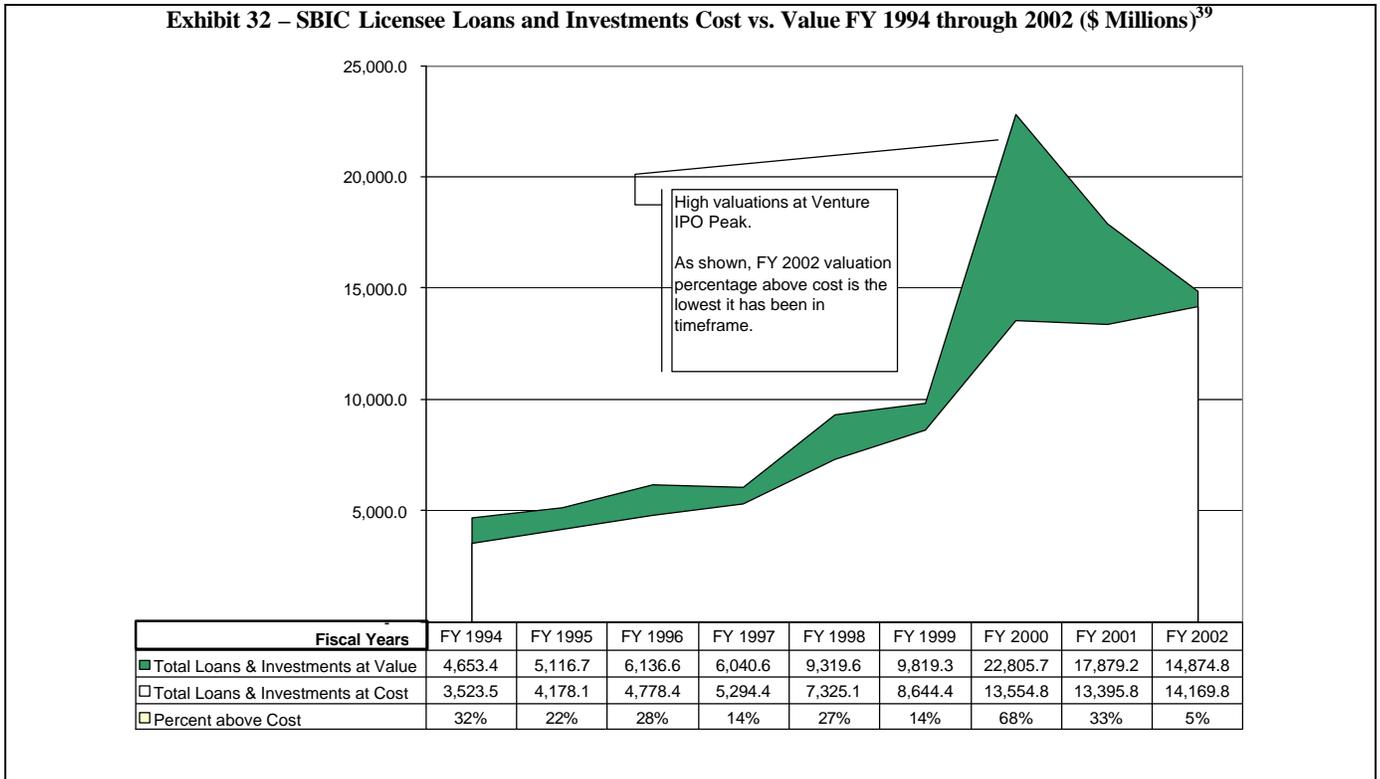
A few observations are noted below:

- Total assets reached their peak in FY 2000 with almost \$26 billion in assets, of which 75% were equity securities.
- With the decline in the stock market and resulting lowering of valuations, by FY 2002, assets declined to \$21.5 billion, still almost twice the assets from FY 1999.
- By FY 2002, current assets (including cash) rose to 29% of total assets and equity securities declined to 54% of total assets.
- The 41% decline in equity securities from FY 2000 to FY 2002 may be attributed to a decline in valuations of securities from the FY 2000 peak, causing significant reductions in unrealized gains as shown in the chart on the next page.

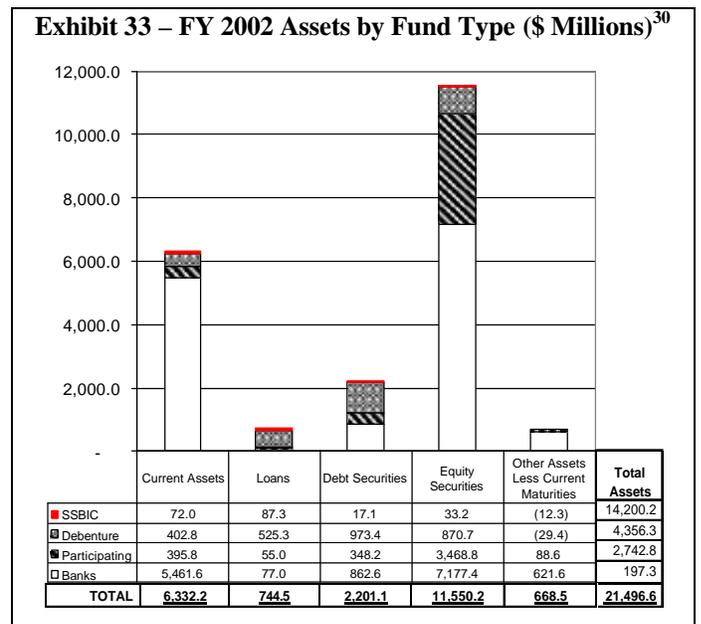
³⁸ The data reflects the annual 468s received in each FY for SBICs still active by the end of each FY. It does not include any SBICs that were transferred to Liquidations or surrendered licenses prior to the end of the FY.

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As shown in the next chart, recent valuations appear to be more conservative as the overall value to cost ratio in FY 2002 is the lowest it has been during this timeframe.



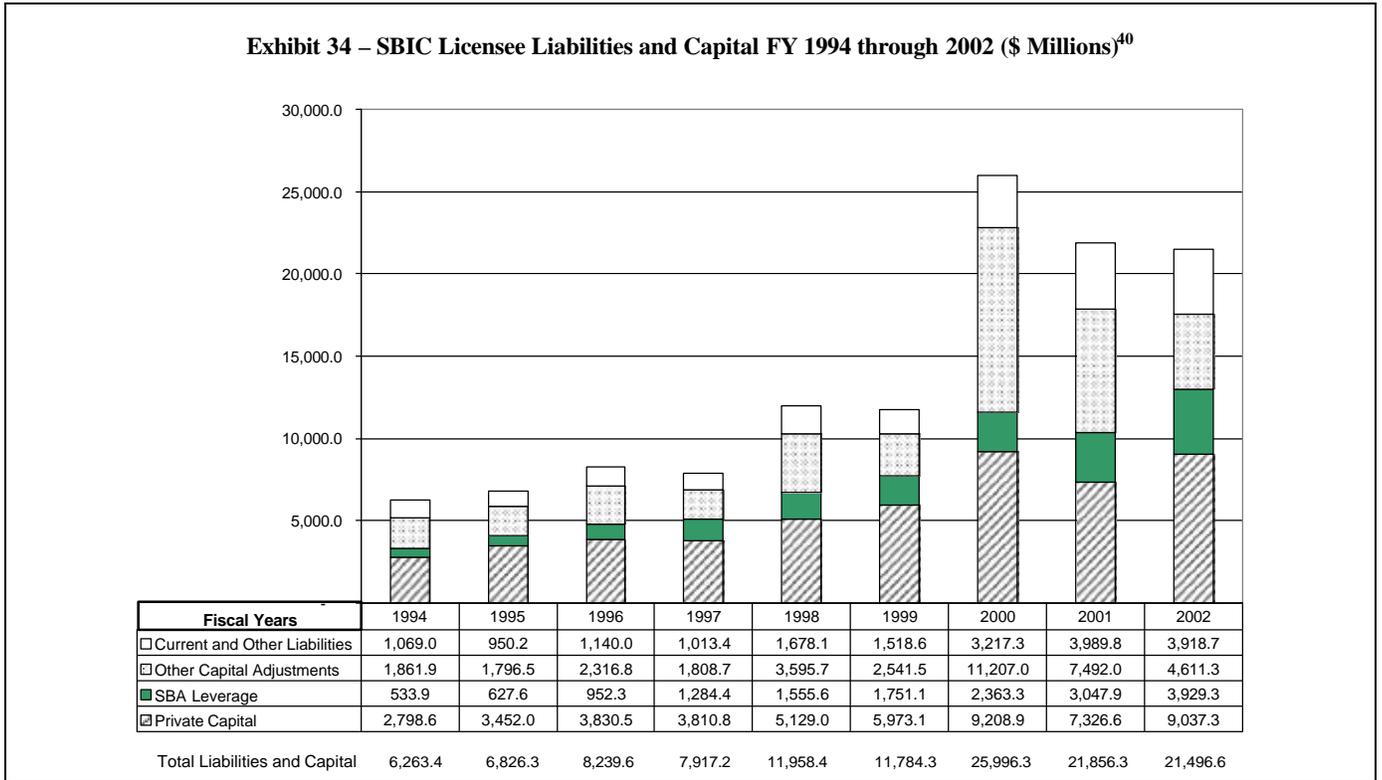
- Exhibit 33 depicts the distribution of assets by fund type (participating, debenture, SSBIC, and bank-owned). As shown, the bank-owned contribute the highest in all categories except loans.
- While bank-owned hold the most equity securities, participating funds hold more proportionately.
- The large increase in FY 2002 in current assets is primarily attributed to bank-owned funds.



³⁹ The data reflects the annual 468s received in each FY for SBICs still active by the end of each FY. It does not include any SBICs that were transferred to Liquidations or surrendered licenses prior to the end of the FY.

Liabilities and Capital

On the other side of the balance sheet, we can see how investments were financed through liabilities and capital.



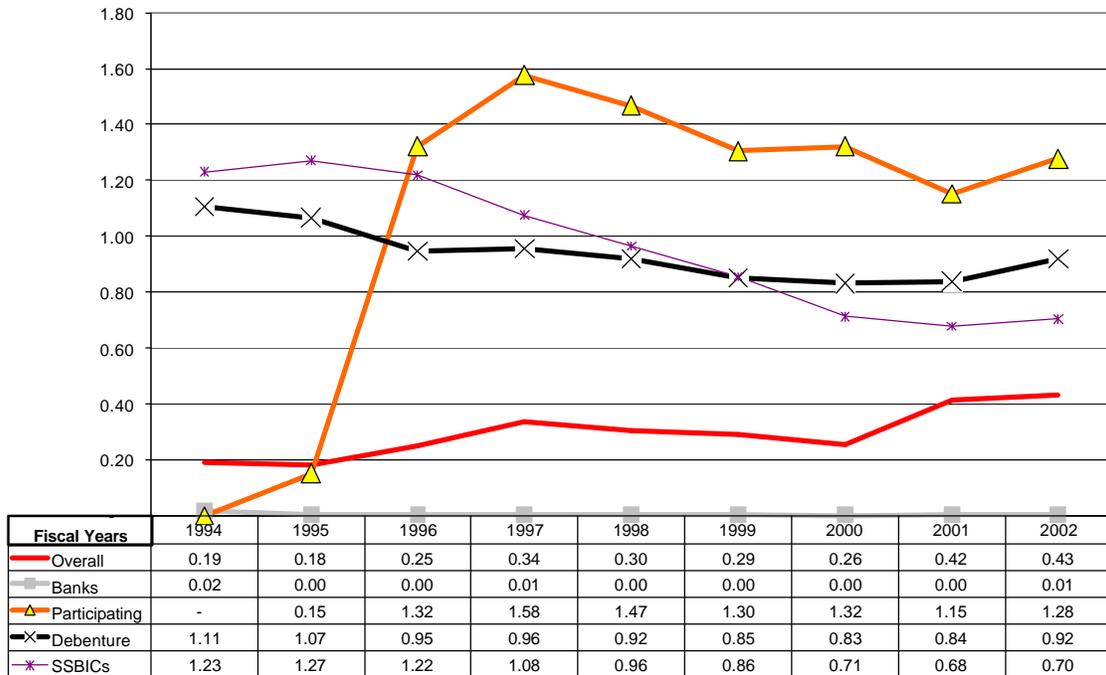
- “Other Capital Adjustments,” which includes unrealized gains in securities held, provided the largest contribution in FY 2000, 43% of all liabilities and capital. As the chart indicates, this declined to 21% by FY 2002, more in line with years prior to FY 2000.
- “Current and Other Liabilities,” have increased to 18% of total liabilities and capital in FY 2002, up from an average of 14%.

⁴⁰ The data reflects the annual 468s received in each FY for SBICs still active by the end of each FY. It does not include any SBICs that were transferred to Liquidations or surrendered licenses prior to the end of the FY.

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SBA Leverage has steadily increased and become a larger part of capital since 1994. Since SBICs may be eligible for SBA leverage in an amount up to three times private capital for debentures and two times private capital for participating securities, it may be surprising that private capital outweighs SBA leverage. The chart below drills down by fund type on this ratio to understand the differences.

Exhibit 35 – SBIC Licensee Outstanding Leverage to Private Capital Ratio by Fiscal Year⁴¹



- While the combined SBA leverage to private capital ratio is only .43, this is due to the bank funds which take very little SBA leverage in comparison to the private capital they provide.
- Participating securities maintained the highest ratio at 1.28 in FY 2002.
- As more participating security funds are licensed and utilize the SBA leverage, the overall ratio will be driven higher, as it has steadily done since FY 1994. This indicates that the SBA will be incurring additional risk.
- While participating securities (not including additional debentures) provided over 50% of the capital in the participating security funds, it is interesting to note that given the cumulative net income (before non-recurring items and accounting adjustments) for participating securities licensees of \$2.5 billion, the SBIC program only received \$281 million in profit participation (about 11% of profits).

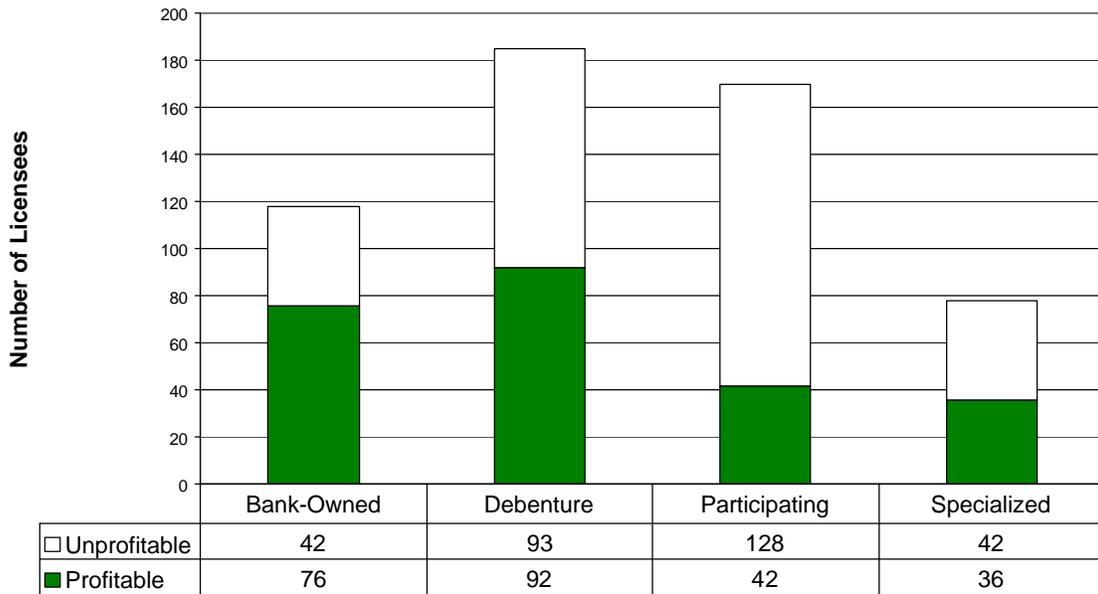
However, this last statement highlights the weaknesses of looking at financial statements on a consolidated basis alone. This is because the SBA’s profit participation is based only on profitable SBICs, while the consolidated net income incorporates SBICs with losses as well. The following exhibit provides a breakdown of SBICs by fund type, separating profitable from unprofitable (based on sum of net income between the period of FY 1994 and FY 2002). As shown, the

⁴¹ The data reflects the annual 468s received in each FY for SBICs still active by the end of each FY. It does not include any SBICs that were transferred to Liquidations or surrendered licenses prior to the end of the FY.

SBA's profit participation is only 9.1% of profitable SBIC licensees' net income. While consolidated licensee numbers give us some information, funds must be looked at on an individual basis.

Exhibit 36 – SBIC Profitable versus Unprofitable SBIC Licensees⁴²

Profitable versus Unprofitable SBICs (FY 1994 through FY 2002)



FUNDTYPE	Profitable		Unprofitable		Total		% Number Profitable
	Net Income (\$M)	Number	Net Loss (\$M)	Number	Net Income (\$M)	Number	
Bank-Owned	10,476.4	76	(374.7)	42	10,101.7	118	64.4%
Debenture	619.2	92	(168.3)	93	450.9	185	49.7%
Participating	3,095.8	42	(595.9)	128	2,500.0	170	24.7%
Specialized	62.8	36	(28.3)	42	34.5	78	46.2%
TOTAL	14,254.2	246	(1,167.1)	305	13,087.1	551	44.6%

SBA Profit Participation \$ 280.7 M
 % of Profitable Participating Securities Net Income 9.1%
 % of Total Participating Securities Net Income 11.2%

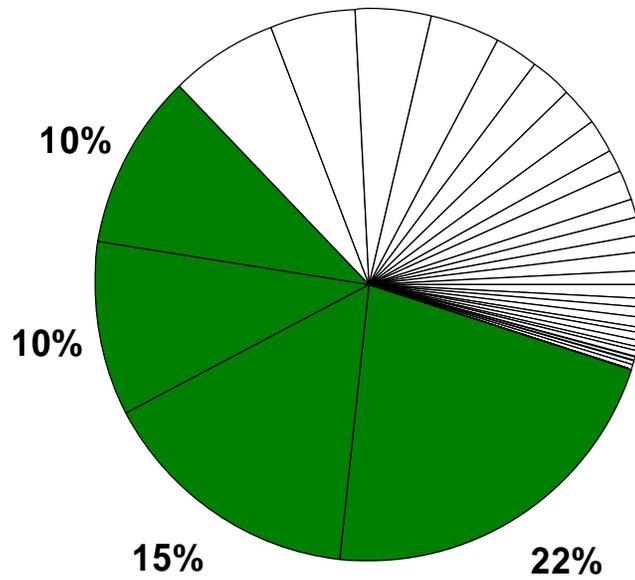
As one can see, the data on participating securities licensees indicates that only 24.7% of such licensees were profitable (the lowest percentage profitable group by fund type), although such licensees represented the second highest group net income during this timeframe. This indicates a large degree of variance within the group. Exhibit 37 shows that while 42 of the participating securities licensees distributed profit participation, over 50% of the \$280.7 million were by 4 funds and 90% of the \$280.7 million were by only 14 of the funds.

⁴² The data reflects the annual 468s received in each FY for all SBICs, including any transferred to Liquidations or surrendered licenses prior to the end of the FY. However, not all SBICs in liquidations maintain 468 data. Therefore, this may not include the entire performance of a fund during this timeframe. It should be noted that net incomes do not include unrealized appreciation or depreciation.

Exhibit 37 – SBICs Providing Profit Participation (FYs 1994 through 2002)⁴³

Profit Participation by 42 Licensees

**4 Provided over 50% of Profit Participation
14 Provided over 90% of Profit Participation**



Total Profit Participation (FYs 1994 through 2002): \$280.7M

⁴³ The data is retrieved from the Distributions Table maintained by Data Management through FY 2002.